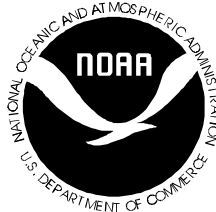


NOAA



LEASE HANDBOOK

A Guide for the Preparation of Lease Determination Worksheets

Chapter I - Purpose and Policy

This handbook provides internal NOAA guidance and procedures on processing contracts and purchase orders involving leases. This document will assist all parties involved understand how to complete the Lease Determination Worksheets and the importance of their role in the overall process.

The Lease Determination Worksheet will be completed to identify if a lease is “Capital” or “Operating.” This and other applicable terms will be defined in Chapter II.

Preparing and recording Leases accurately depends greatly on whether all the required data is collected and documented as described in Chapter III.

Chapter IV details specific instructions for completing the form. The instructions for this handbook are based on a revised Lease Determination Worksheet. This form was revised to make completing it easier and to provide additional data required to satisfy OMB Circular 97-01. This new form will be effective July 1998. Lease Determination Worksheets completed after that date must use the new form. Lease Determination Worksheets completed prior to that date may use the May 1997 version of the form.

Once the Lease Determination Worksheet has been prepared, it must be distributed to the appropriate parties and tracked for renewals and replacements. This process is described in Chapter V.

Generally, once a Lease Determination Worksheet is completed, it does not need to be revised; however, there are situations where modifications may be required. These are discussed in Chapter VI.

Chapter VII describes what happens to a Lease Determination Worksheet once it is received in the Personal Property offices.

Information from the Lease Determination Worksheets is used in the preparation of the Financial Statements to give a complete financial picture of NOAA’s most current position as will be discussed in Chapter VIII.

The requirement for Financial Statements was established by Congress with the Chief Financial Officers (CFO) Act of 1990. This Act:

- established a Chief Financial Officer who is responsible for overseeing the financial management aspects of the agency’s programs and operations; developing and maintaining a financial

management accounting system that complies with internal control requirements.

- requires an audit of the statements by either the IG or an independent public accounting firm.

The purpose of the Act is to:

- establish more effective general & financial management practices
- ensures that the agency's system will provide complete, reliable, and timely data
- improve the agency's systems of accounting, financial-management and internal controls

Chapter II - Definitions

In order to accurately complete Lease Determination Worksheets, it is important to have an understanding of a number of terms relating to this process. These are defined below:

ANNUAL GROSS MINIMUM LEASE PAYMENTS

Payments the lessee is obligated to make. Contingent rentals are excluded from these payments and are based on a factor related to future use of the property, and do not represent an obligation. Annual gross minimum lease payments = annual rental payments + residual value + bargain purchase options + penalties

ASSETS

Tangible or intangible items owned by the Federal Government which would have probable economic benefits that can be obtained or controlled by a Federal Government entity.

BARGAIN PRICE

The lessee's option to purchase leased property at a price that is significantly lower than the expected fair value of the property which makes exercise of the option almost certain. (An example would be when we have a lease with an option to purchase that provides for a "buy-out" during the lease term at a predetermined amount.)

CAPITAL LEASES

Are contracts of agreement for real or personal property items that resemble an actual purchase. Under a capital lease, all benefits and risk of ownership are transferred to the lessee (or person doing the leasing). To be a capital lease, the total lease must have to have a term equal to or greater than 2 years and total lease payments must be equal to or greater than \$25,000. Further, one or more of the following four criteria must be met:

- The lease transfers ownership to the lessee;

-
- The lease terms include an option to purchase the leased property at a bargain price;
 - the lease term is greater than or equal to 75% or more of the remaining estimated economic useful life of the leased property; or
 - the present value of rental and other minimum lease payments, excluding that portion of the payments representing executory costs, equals or exceeds 90% of the fair value of the leased property.

ECONOMIC USEFUL LIFE

The estimated useful life is the period of time the asset will be usable or provide benefit over its entire life. The asset's life is normally based on the tables used by the National Finance Center (NFC). The useful life, which is determined at the inception of a lease, is separate from the lease term.

EXECUTORY COSTS

Costs in addition to the actual costs of the lease such as insurance, maintenance, utilities, taxes or inspections. These costs apply to both capital and operating leases.

FAIR MARKET VALUE

The price the asset could be sold for in the open market between unrelated parties at the inception of the lease. (For many NOAA leases this would be the catalog price or GSA price of the item.)

IMPUTED INTEREST

An estimated or imputed cost of money or other form of investment often stated as a rate of return relative to some asset or investment base; the best price (= rate) at which a loan or an investment of capital may be negotiated).

LEASE TERM

The base period of the lease plus any option periods. The term can not extend beyond the date a bargain purchase option becomes exercisable.

LESSEE

The party that is granted the right to use the property for a stated period of time.

LESSOR

The party that is granting the right to lease the property for a stated period.

NOMINAL DISCOUNT RATE

The interest rate used to adjust the time value of money for the calculation of the present value of money.

OPERATING LEASE

Any lease not meeting any one of the criteria for capital leases. An operating lease is basically a rental of property or agreement conveying the right to use property for a limited time in exchange for rental payments.

PAYMENT PERIODS

The number of periods payment is due. For example:

lease term = 10 yrs. with 12 payments per year = 120 payment periods, or

lease term = 5 yrs. with 4 quarterly payments = 20 payment periods

PRESENT VALUE

Considers the present value of money given a particular interest rate and predetermined future periods. It is the principal amount that must be invested today to produce a future value. For example, the present value of minimum lease payments = today's cost that will increase to a future amount based on a given interest rate over a stated period of time

REMAINING ESTIMATED ECONOMIC USEFUL LIFE

The remaining period during which the property is expected to be usable by the lessee for the purpose for which it was intended at the inception of the lease.

RESIDUAL VALUE

Residual value is an estimate of the price that the property could be sold for at the end of the period of the lease-purchase analysis, measured in discounted present value terms. The value should be included in the calculation of the minimum lease payments to determine the correct valuation of the lease.

Chapter III - Data/Documentation Requirements

In order to ensure that a Lease Determination Worksheet is correctly prepared, it is essential to obtain all the necessary information. First of all, the CD-435 must be prepared correctly by the requestor. For newly established leases, in addition to the normal requisition documentation, the required information includes:

- the desired lease term (36 month, 48 months, 60 months, etc.);
- the type of lease (i.e. straight lease, lease with option to purchase, lease to ownership;
- a justification for lease versus purchase;
- trade-in data including the model, serial number, and bar code number of the item to be traded; and
- the status of the item to be traded, i.e. owned or leased.

For renewal of leases the following data should appear on the CD-435:

- the remaining applicable months of the lease term (i.e. months 13 - 24 of a 48 month lease);
- reference to the previous purchase order or contract number(s)
- property data including the model, serial number, and bar code number of the item.

When obtaining information to establish a lease, the following data must be obtained from the Contractor:

- the purchase price to establish a fair market value;
- the contractor's interest rate; and
- the trade-in value credit to be given.

When the purchase order or contract is prepared, the following information should be placed on the procurement document and/or in the file for ready access in preparation and review of the Lease Determination Worksheet:

- Purchase Price;
- Lease terms;
- Trade-in information including model, serial number, and bar code number; and
- Correct Budget Object Code.

It is important to note that for leases, it is Procurement's job to determine the correct budget object code. That is because, as will be explained later, until a decision is made as to whether a lease is capital or operating, the correct object code cannot be determined.

Chapter IV - PREPARATION OF THE WORKSHEET

OPERATING LEASES

Operating leases fall into two categories—those whose total gross minimum lease payments fall under \$25,000 and those which are over \$25,000. If a lease is determined to be under \$25,000, only Parts I and IV of the worksheet need to be completed. If a lease is over \$25,000 in order to determine whether the lease is operating or capital, Parts I, II, III, and IV of the Lease Determination Worksheet must be completed.

CAPITAL LEASES

All capital leases require completion of Parts I, II, III, and IV of the Lease Determination Worksheet.

SPECIFIC INSTRUCTIONS FOR COMPLETION OF THE LEASE DETERMINATION WORKSHEET FORM

Throughout the form itself, attempts have been made to give examples and make completion easier. Those instructions are not being repeated here, but other information is provided where it is expected to help further explain the requirements of the questions.

HEADER/IDENTIFYING INFORMATION

This data is generally self explanatory. Keep in mind that there may be more than one item on an order. A Lease Determination Worksheet is normally filled out for **each leased item** since the item, terms, beginning and ending dates of the lease, etc. may vary. However, if you are entering into a lease for multiples of the same item at the same time (i.e. two of the same model copiers), it would be acceptable to fill out one worksheet as long as you indicate the quantity and as long as the item is classified as an **operating lease**. If it is classified as a **capital lease, complete a separate worksheet for each item**. When more than one item is leased on an order/contract, you should also indicate the order/contract line item number.

PART I - Operating Lease Evaluation

Despite the title of this part, it must be completed for all leases whether the item is ultimately determined to be a Capital or an Operating Lease.

1. Is the total lease term indeterminable?

Some things that we acquire are leased with no specific term agreement (beyond that stated on the order which will always be one year or less). These types of items will be leased indefinitely until the need no longer exists or until the item is replaced. Some examples of this are postage meters, pagers, and cell phones. Since the lease term is indeterminable and the items are not tracked in the Personal Property system, these items will always be classified as an operating lease.

2. Is the total lease term less than or equal to one year?

Do not become confused by the fact that orders are usually written for one year or less. If the price we are receiving is based on a three year or five year lease agreement (for example, a copier under the GSA schedule), that is the true lease term and should be used in answering this question.

3. Are the total minimum lease payments for each item leased (not including executory costs) less than \$25,000?

In making this calculation, only the lease cost is used. Usually the lease cost is based on the purchase price of the item, less any trade-in, and plus the interest. Executory costs are usually shown as a separate item and are not included in the lease price; but if they are, they should be backed out. As an example, if the cost of a lease for three years is \$25,500 but the lease cost is made up of \$19,000 for the actual price of the item, \$4,000 interest, and \$1,500 installation and set up costs, the \$1,500 should be eliminated from the calculation. That would mean that the minimum lease payments would be **\$24,000** rather than **\$25,500**.

4. Is the lease term greater than or equal to two years?

Again, it is necessary to consider the full term of the potential lease, not just the initial or current order. If the lease term is more than 2 years and the lease cost is greater than \$25,000, there is a requirement to report future minimum lease payments, therefore the Worksheet directs you to complete F. of Part III and Part IV. If the lease term is greater than 2 years and the lease cost is greater than \$25,000, you must complete Part II, all of Part III, and Part IV.

PART II- Capital or Operating Lease Determination (>\$25,000)

1. Does the lease transfer ownership of property to NOAA at the end of the lease term?

Leases are generally of three types—straight lease, lease with option to purchase, and lease to ownership. A straight lease would be an arrangement whereby you would lease with no known intention of ever buying the equipment to be leased. None of the lease costs would be accruing toward an eventual purchase. If this is a straight lease, the answer to this question would be **no**.

A lease with option to purchase is an arrangement whereby a percentage of the lease cost is credited toward purchase. The percentage may vary depending on the point in time at which a purchase decision may be made. If this is a lease with option to purchase, the answer to this question would be **no**. A lease to ownership is similar to buying on credit. The purchase cost and the interest for financing over the specified period are divided into payments for a stated period of time. When the last payment is made, the Government assumes ownership of the equipment. If the arrangement is a lease to ownership plan, the answer to this question would be **yes**.

2. Is there an option to purchase the property at a bargain price?

If the terms of the lease would permit the Government at some point in time to purchase the item(s) for a price less than the expected fair market price of an item, as in the lease with option to purchase scenario, the answer to this question would be **yes**. If the lease does not include these specific terms, the answer to the question would be **no**.

3. Is the lease term equal to or greater than 75% of the remaining estimated economic useful life of the property? and;

4. Is the net present value of rental and other lease payments excluding executory costs equal to or greater than 90% of the fair market value?

The answers to questions 3 and 4 of Part II cannot be completed without first completing Part III of the Worksheet. If after completing question A.4 of Part III, the determination is made that the lease term falls within the last 25% of the total remaining estimated economic useful life of the property, these two questions will not apply, and the lease will automatically be determined to be an operating lease. These two questions are the same as those in Part III. Part II, #3 is the same as Part III, A.5. Part II, #4 is the same as Part III, B.7. They are repeated in Part II since they are essential in making the final determination as to whether the lease is capital or operating. If the answer to **all four questions** in Part II are **no**, the lease is classified as an **operating** lease. If the answer to any question in Part II is **yes**, the lease is classified as a **capital** lease.

PART III - Personal Property Capital/Operating Leases

A. Determine the remaining economic useful life and lease term period.

To answer the questions in section A, the following table should be used:

TABLE FOR CALCULATING USEFUL LIFE FOR LEASE DETERMINATION WORKSHEETS EXTRACTED FROM NATIONAL FINANCE CENTER DATA			TABLE 1
OBJECT CLASS	USEFUL LIFE	DESCRIPTION	
3130	10 YEARS	OTHER (EXCLUDES ADP & TELECOMMUNICATIONS)	
3131	8 YEARS	ADP	
3132	8 YEARS	TELECOMMUNICATIONS	

1. **Enter the remaining estimated economic useful life at the inception of the lease.** As indicated on the Worksheet, the economic useful life will always be the same as the total economic useful life unless the item being leased is used. If the item is used, take the total economic useful life, subtract the age of the item, which will leave the remaining economic useful life. As an example, a computer is two years old; the total economic useful life is 8 years; therefore, the remaining economic useful life would be 6 years (8-2=6).

2. **Enter the lease term.** The lease term is the length of time the lease is based upon for the pricing given, to include options.

3. **Enter the total estimated economic useful life.** Use Table 1 above to select the correct period.

4. **Is the leased property within the last 25% of the remaining estimated economic useful life?** This is calculated by dividing A.1 by A.3 as illustrated on the Worksheet form. Keep in mind that if the answer to this question is **yes**, questions 3 and 4 of Part II **do not apply!**

5. **Is the lease term greater than or equal to 75% of the remaining estimated economic useful life of the asset?** This is calculated by dividing A.2 by A.1 as illustrated on the Worksheet form. The answer to this question should be also shown in Part II, question 3.

B. Determine the present value of rental and other minimum lease payments.

(Complete this entire section **unless** the answer to question A.4 of Part III is **yes** in which case this section should be skipped..)

1. **Enter the total amount of rental and other minimum lease payments (not including executory costs).** This response would be the same as the total shown in Part I, question 3.

2. **Enter the scheduled payment terms and amount (not including executory costs).** This would be the number and amount of payments to be made. This question introduces the subject of the difference between “annuity due” and “ordinary annuity”. “Annuity due” would indicate payments in advance at the beginning of the payment period and “ordinary annuity” would provide for payments at the end of the payment period. Since the Government normally only pays for services and supplies after they are acquired except for a few exceptions, you would normally indicate “ordinary annuity” by underlining the term on the form.

3. **Enter the scheduled payment periods.** This question simply requests the total number of payment periods.

4. **Enter the Treasury’s interest rate and the Contractor’s interest rate.** You should show both rates and use the lower rate for calculation. Exhibit A is the current listing of the Treasury interest rates to be used. This form is updated annually.

5. **Enter the fair market value of the leased property.** This is the price one would expect to pay for this item if it were being purchased. This information should be obtained from the contractor and should be supportable as reasonable. Support could include the price in the contractor’s GSA schedule or the price shown in their commercial catalog.

6. **Compute the present value of rental and other minimum lease payments based on the information in B. 1-4 above.** Performing this calculation can be

easily accomplished by the use of a Lotus 123 spread sheet which is available on-line. (Site to be furnished later). If the payments to be made are equal, the following formula is used:

The following is a depiction of the PVA table as it appears in Lotus 123 using a sample formula.

TABLE 2		
PRESENT VALUE ANALYSIS (PVA) TEMPLATE FOR EVEN PAYMENTS		
123 Cell NO.	COLUMN A	COLUMN B
1		
2	PRESENT VALUE ANALYSIS TEMPLATE	
3		
4	ORDER NUMBER: 43- AANW- 8- 12345	
5		
6	MONTHLY LEASE PAYMENT	\$260. 00
7		
8	INTEREST RATE (EXPRESSED AS A	. 057
9	DECIMAL)	
10		12
11	PAYMENTS PER YEAR	
12		5
13	NUMBER OF YEARS	
14		12
15	PAYMENTS PER YEAR	
16		0
17	MARKER (0 FOR PAYMENT AT END OF	
18	MONTH, 1 FOR ADVANCED PAYMENT)	
19		\$13, 546.
	FORMULA @PVAL(B6, B8/B10, B12*B14, B16)	17

If the payments to be made are not the same each month or each year, a different type of formula should be employed. This format is as indicated in Table 3. Table 3 shows

that the amount entered during a given period of a lease will have a different discount factor applied to it depending on the month in which the payment will be made.

TABLE 3

PRESENT VALUE ANALYSIS (PVA) TEMPLATE FOR UNEVEN PAYMENTS

Cell NO.	COLUMN A MONTH	COLUMN B MONTHLY RATE	COLUMN C	COLUMN D Interest
1	1	99.53%		5.70%
2	2	99.05%		Monthly
3	3	98.58%		12
4	4	98.10%		Amount
5	5	97.63%		\$1.00
6	6	97.15%		
7	7	96.68%		
8	8	96.20%		
9	9	95.73%		
10	10	95.25%		
11	11	94.78%		
12	12	94.30%		
13	13	93.83%		
14	14	93.35%		
15	15	92.88%		
16	16	92.40%		
17	17	91.93%		
18	18	91.45%		
19	19	90.98%		
20	20	90.50%		
21	21	90.03%		
22	22	89.55%		
23	23	89.08%		
24	24	88.60%		
25	25	88.13%		
26	26	87.65%		
27	27	87.18%		
28	28	86.70%		
29	29	86.23%		
30	30	85.75%		
31	31	85.28%		
32	32	84.80%		
33	33	84.33%		
34	34	83.85%		
35	35	83.38%		

7. Is the present value of the rental and other minimum lease payments equal to or greater than 90% of the fair market value of the leased property? After calculating this figure by dividing B.6 by B.5, enter the answer in Part II. question 4. also.

- C. **Determine the Major Class of the Fixed Asset.** Check the block most closely describing the asset being leased. Be careful that the choice here does not conflict with the choice made using Table 1 in A. above.
- D. **Enter the amount of trade-in (if applicable).** Keep in mind that if a trade-in is used that you must provide the appropriate information to Property (model, serial number, bar code number) to remove the item traded in from the Property records. For tracking purposes, this information should be entered on the order or contract.
- E. **Determine the proper amortization period.** The two questions in Part E are used in determining how the asset is amortized in the Personal Property Management Information System (PMIS). These two questions are designed so that if the answer to 1 is **Yes**, you do not answer question 2. Question 2 is only answered if the answer to question 1 is **No**.
- F. **Determine the amount of executory costs, imputed interest, and future lease payments that are funded and unfunded.** In this part of the worksheet, specific information by fiscal year is needed for principal, interest, and executory costs for use in preparation of the Financial Statements. When a capital lease is entered into, the Federal Accounting Standards Advisory Board (FASAB) No. 6 requires that the amount of principal and the amount of interest be calculated on a yearly basis. If the contractor cannot provide this information, one way of calculating the data is to use the Loan Amortization Program of Lotus 123 or other spreadsheet packages. Information should be entered and totaled for each column (A through E). Questions F.1. and F.2. should show the breakout of how much of the lease has been funded at its initiation.

Part IV - Operating or Capital Lease Determination - Check the appropriate block for either Operating or Capital lease. Enter the correct Budget Object Class Code. For help on the Budget Object Class Code, see the NOAA Personal Property Web Site located at (<http://www.masc.noaa.gov/masc/noaaobj.html>) for an automated tool. Also, included at Exhibit B of this document is a list of Frequently used Budget Object Class Codes. The document should be signed by the preparer and reviewed at a level above the preparer.

OMB BULLETIN A-94
DISCOUNT RATES FOR COST-EFFECTIVENESS,
LEASE PURCHASE, AND RELATED ANALYSIS

NOMINAL DISCOUNT RATES (FOR COMPLETING PERSONAL PROPERTY
LEASE DETERMINATION WORKSHEETS)

PERIOD	3-YEAR	5-YEAR	7-YEAR	10-YEAR	30-YEAR
MAR 92 - FEB 93	6.1	6.5	6.7	7.0	7.1
MAR 93 - FEB 94	5.6	6.0	6.3	6.7	6.8
MAR 94 - FEB 95	5.0	5.3	5.5	5.7	5.8
MAR 95 - FEB 96	7.3	7.6	7.7	7.9	8.1
MAR 96 - FEB 97	5.4	5.5	5.5	5.6	5.7
MAR 97 - JAN 98	5.8	5.9	6.0	6.1	6.3
FEB 98 - JAN 99	5.6	5.7	5.8	5.9	6.1

ANALYSIS OF PROGRAMS WITH TERMS DIFFERENT FROM THOSE PRESENT
MAY USE A LINEAR INTERPOLATION. FOR EXAMPLE, A FOUR-YEAR PROJECT
CAN BE EVALUATED WITH A RATE EQUAL TO THE AVERAGE OF THE THREE
AND FIVE YEAR RATES. PROGRAMS WITH DURATIONS LONGER THAN 30
YEARS MAY USE THE 30-YEAR INTEREST RATE.

COMMONLY UTILIZED OBJECT CLASS CODES FOR PURCHASES
OF OFFICE AND LAN EQUIPMENT, AND RELATED ITEMS

(NOTE: This is an abbreviated list. Refer to NOAA Finance Handbook, Chapter 12, Section 6, dated 09/08/95, Transmittal #1-96 dated 05/24/96 and Transmittal #1-98 dated 02/24/98 for more detailed descriptions of the codes.)

Procurement determines and assigns the object classification codes for all capitalized and non-capitalized leased or rental property.

- 2320 Rental payments to others (meeting rooms/hotel, furniture, etc.)
- 2334 Rental of equipment (excluding ADP and Telecommunications)
- 2335 ADP and Telecommunications equipment leased
- 2336 Telecommunications (Utility) Data/Network Services (E-mail service, Internet connections, online, postage meters)
- 2522 Maintenance of Equipment (Excluding maintenance under Object Class 2523 and excess copies under maintenance agreements on Government-owned copiers)
- 2523 ADP & Telecommunications Contractual Services (labor, maintenance, warranty)
- 2620 Software and licenses costing \$25,000 or less
- 3111 Capitalized Purchase or Lease-to-Purchase Equipment costing \$25,000 or more (excluding ADP and Telecommunications)
- 3112 Capitalized Purchase or Lease-to-Purchase ADP Equipment costing \$25,000 or more
- 3115 Capitalized Motor Vehicles (Costing more than \$25,000)(trucks, cars, tractors, trailers, or any other motor propelled vehicle (excludes ships and aircraft)
- 3116 Capitalized Purchase or Lease-to-Purchase Telecommunications Equipment costing \$25,000 or more
- 3117 All other Capitalized Property, not otherwise classified, costing \$25,000 or more

COMMONLY UTILIZED OBJECT CLASS CODES FOR PURCHASES
OF OFFICE AND LAN ROOM EQUIPMENT AND RELATED ITEMS

- 3118 Capitalized trade-in allowance
- 3119 Capitalized software costing \$25,000 or more with a useful life of 2 years or more
- 3120 Non-Capitalized Equipment other than ADP or Telecommunications costing less than \$25,000
- 3123 Non-Capitalized Data Processing and Telecommunications Equipment 3123 costing less than \$25,000
- 3130 Capital Leases (Excluding ADP and Telecommunications)
- 3131 Lease-to-purchase ADP Equipment
- 3132 Lease-to-purchase Telecommunications Equipment

PERSONAL PROPERTY CAPITAL/OPERATING LEASE DETERMINATION WORKSHEET

Requisition Number: _____

Purchase Order/Contract Number: _____

Description of Leased Property: _____
(include Mfg., model #, serial number and bar code number) _____

Part I - Operating Lease Evaluation

Answer the following applicable questions and follow the directions given.

1. Yes No
☐ ☐ Is the total lease term **indeterminable**, i.e., is the ending date of the lease not known? If the answer is Yes, the lease is classified and recorded as an operating lease. Complete Part IV of the Worksheet and place the worksheet in the order/contract file. You are done. If the answer is No, continue to question 2.

2. Yes No
☐ ☐ Is the total lease term **less than or equal to one year** ? Consider all potential terms in the lease agreement in making this determination. If the answer is Yes, the lease is classified and recorded as an operating lease. Complete Part IV of the Worksheet; place the Worksheet in the order/contract file, the Master File and send a copy to Personal Property. You are done. If the answer is No, continue to question 3.

3. Yes No
☐ ☐ Are the total minimum lease payments for each item leased (not including executory costs) **less than \$25,000**? Consider the total payments for all terms in the lease agreement in making this determination. Calculate below:

$$\frac{\text{Monthly lease cost}}{\text{total months of the lease}} \times \text{ } = \frac{\text{total minimum lease payments}}{\text{ }}$$

If the answer is Yes, the lease is classified and recorded as an operating lease. Complete Part IV of the Worksheet; place the Worksheet in the order/contract file, the Master File, and send a copy to Personal Property. You are done. If the answer is No, continue to question 4.

4. Yes No
☐ ☐ Is the lease term **greater than or equal to two years**? Consider all potential terms in the lease agreement in making this determination. If the answer is No, the lease is classified and recorded as an operating lease. Complete F. of Part III, Part IV of the Worksheet; place the Worksheet in the order/contract file, the Master File and send a copy to Personal Property. You are done. If the answer is Yes, continue to Part II.

NOAA's Policy Regarding Leases

Lease Term	Total Lease Payments*	Capital Lease Criteria Met	Lease Type	Reporting Requirements
≤ 1 year	N/A	N/A	Operating	None
> 1 year	< \$25,000	N/A	Operating	None
> 1 year but < 2 years	≥ \$25,000	N/A	Operating	Future Minimum Lease Payments
≥ 2 years	≥ \$25,000	NO	Operating	Future Minimum Lease Payments
≥ 2 years	≥ \$25,000	YES	Capital	Asset property and offsetting capital lease liability: Future Minimum Lease Payments (funded/unfunded): Imputed interest: Executory costs

*Defined as "Total minimum lease payments" (excluding executory costs)

Page 1 of 4 (Effective date 7/98)

Answer the first two questions. If the answer to either is Yes, the lease is classified as a capital lease. Continue to Part III in order to complete questions 3 and 4 below. If the answer to questions 1 and 2 is No, continue to Part III to complete the form to make the final determination if this is a Capital or Operating Lease

NOTE: If the answers to all of the questions in Part II are **No**, the lease should be classified as an **operating lease**.

A. **Determine the remaining economic useful life and lease term period.** (Use the “Table for Calculating Useful Life for Lease Determination Worksheets Extracted from National Finance Center Data”.)

- Page 2 of 4 (Effective date 7/98)

PERSONAL PROPERTY CAPITAL/OPERATING
LEASE DETERMINATION WORKSHEET

For Purchase Order/Contract Number: _____

Part III - Personal Property Capital/Operating Leases (continued)

II. Determine the present value of rental and other minimum lease payments. (Note: This part is N/A _____ if the remaining estimated economic useful life is within the last 25% of the total useful life, i.e. the answer to question A. 4 = Yes.)

1. Enter the total amount of rental and other minimum lease payments (not including executory costs) _____
2. Enter the scheduled payment terms and amount (not including executory costs): _____
Illustration: \$833.33/month due at the beginning of the period (annuity due=payment in advance)
\$10,000/year due at the end of the period (ordinary annuity=payment in arrears)
3. Enter the scheduled payment periods: (Illustration: 10 years with 12 payments per year = 120 periods or 5 years with four quarterly payments per year = 20 periods.) _____
4. Enter the Treasury's interest rate _____% and the Contractor's interest rate _____%
Place **whichever one is lower** in the blank to the right.. _____
5. Enter the fair market value of the leased property. (Maintain supporting documentation of how this amount was calculated, i.e. quotation, GSA schedule or catalog price.) _____
6. Compute the present value of rental and other minimum lease payments based on the information in B. 1-4 above. (Make sure you use the correct present value table or calculation.) _____
7. Is the present value of the rental and other minimum lease payments equal to or greater than 90% of the fair market value of the leased property? (Divide B.6 by B.5.) Yes No
☐ ☐

C. Determine the Major Class of the Fixed Asset. (Place a check on the appropriate line.)

ADP Software	_____	Other	_____
ADP Equipment	_____	Satellites	_____
Aircraft	_____	Satellite Ground System	_____
Construction in Process	_____	Ships	_____
Motor Vehicles	_____	Telecommunications	_____

D. Enter the amount of trade-in (if applicable) _____

E. Determine the proper amortization period.

1. Did the lease meet capitalization criteria number 1 or 2 in Part II of the Lease Determination Worksheet? If the answer is yes, the asset is amortized over the remaining economic useful life of the asset. Yes No
☐ ☐

Enter the remaining estimated economic useful life of the asset, and do not answer the next question. _____

2. Did the lease meet capitalization criteria number 3 or 4 in Part II of the Lease Determination Worksheet? If the answer is yes, amortized over the lease term or remaining life of the asset, whichever is less. Yes No
☐ ☐

Enter the lease term or remaining life of the asset, whichever is less. _____

F. **Determine the amount of executory costs, imputed interest, and future lease payments that are funded and unfunded.**

Enter the future minimum lease payments for the lease, beginning with the first year payments are made
(Include all option years. If more space is needed, attach a plain sheet of paper.)

Period	Fiscal Year	Principal		Interest		Future Minimum Lease Payments		Executory Costs		Total Annual Minimum Lease Payments (incl. Exec. Costs)
		A	+	B	=	C	+	D	=	E
1.	_____	_____		_____		_____		_____		_____
2.	_____	_____		_____		_____		_____		_____
C.	_____	_____		_____		_____		_____		_____
D.	_____	_____		_____		_____		_____		_____
5.	_____	_____		_____		_____		_____		_____
6.	_____	_____		_____		_____		_____		_____
7.	_____	_____		_____		_____		_____		_____
8.	_____	_____		_____		_____		_____		_____
9.	_____	_____		_____		_____		_____		_____
10.	_____	_____		_____		_____		_____		_____
Totals		_____		_____		_____		_____		_____

1. Enter the future minimum lease payments (column C) that are funded. _____

2. Enter the future minimum lease payments (column C) that are unfunded. _____

Part IV - Operating or Capital Lease Determination

Based on the responses to the above questions in Parts I through III it is hereby determined that this acquisition represents one of the following types of leases and that the Budget Object Class Code specified is correct:

Operating Lease: _____ Capital Lease: _____ Budget Object Class Code: _____

Signature of Preparer: _____ Date: _____

Title of Preparer: _____ Telephone No. _____

Signature of Reviewer _____ Date: _____

Title of Reviewer: _____ Telephone No. _____

DISTRIBUTION:

- _____ Order/Contract File
- _____ Personal Property Manager
- _____ Master File (Do not provide if lease term is interderminable)
- _____ Requisitioner (Capital Leases Only)

Chapter V - Distribution and Tracking

The Procurement Division is responsible for the preparation and distribution of the Lease Determination Worksheet. The paragraphs that follow provide guidance and direction for distributing and tracking the completed worksheet.

OPERATING LEASES

The Preparer will file the signed worksheet and all supporting documentation in the purchase order or contract file folder and forward one copy of the worksheet and supporting documentation to the Property Manager.

The Preparer will retain one copy of the worksheet and supporting documentation in a permanent file marked "OPERATING LEASES".

Each fiscal year, the Preparer will compile a list of the operating leases. This list will identify the purchase order/contract number, the total dollar value for the life of the lease, and a generic description of the lease, such as "Lease of Reproduction Equipment" or "Lease of Vehicles ." The Preparer will file the list in the permanent "OPERATING LEASE" file.

When a lease is renewed through the exercise of an option, the Procurement Office can use the original worksheet form (unless changes have occurred which require re-doing the worksheet), making another copy of the worksheet with the new order number annotated on it, retain one copy of the purchase order or contract document with the initial record in the permanent file and provide a copy to the Property Manager. The Property Manager will ensure that the data recorded in the National Finance Center (NFC) Property Management Information System (PMIS) is appropriately adjusted to reflect the new source document number (if applicable) and new lease termination date.

CAPITAL LEASES

The Preparer will file the signed worksheet and all supporting documentation in the purchase order or contract file folder. A copy of the worksheet and supporting documentation will be forwarded to the Property Manager and the Requisitioner.

The Preparer will retain two copies of the worksheet and supporting documentation; one copy in a permanent file marked "CAPITAL LEASES" and one in a hold file to be forwarded, upon request, to the Personal Property Team of Acquisition Grants and Facilities Services (AGFS) through AGFS Procurement.

When a lease is renewed through the exercise of an option, the Procurement Office can use the original worksheet form (unless changes have occurred which require re-doing the worksheet), making another copy of the worksheet with the new order number annotated on it, retain one copy of the purchase order or contract document with the initial record in the permanent file; provide a copy to the Property Manager; and retain one copy in a hold file for the AGFS Personal Property Team. The Property Manager will ensure that the data recorded

in the NFC PMIS is appropriately adjusted to reflect the new source document number (if applicable).

Each fiscal year, the Preparer will compile a list of the capital leases. This list will identify the purchase order/contract number, the total dollar value for the life of the lease, and a generic description such as "Lease of Reproduction Equipment" or "Lease of Vehicles ." The Preparer will file the list in the permanent "CAPITAL LEASE" file. One copy will be placed in the hold file for the AGFS Personal Property Team

Documentation supporting Capital Lease determinations are typically more extensive than the documentation supporting an operating lease determination. The preparer is encouraged to use labeled tab dividers to separate the documentation making it readily accessible for Reviewers.

Chapter VI - Changes/updates to Worksheet

CHANGES

There are four situations that may result in a change in the lease.

1. The lease expires and there are no additional option year renewals.
2. The lease is canceled or terminated.
3. The lease expires and the Government assumes ownership of the property or the Government acquires title and ownership before the end of the lease term of the lease to ownership plan.
4. The lease terms and conditions are modified by issuance of a modification to the purchase order or contract.

UPDATES TO THE WORKSHEET

The lease determination worksheets are prepared for the initial requirement at the inception of the lease. Thereafter new worksheets are not required unless there is a change in the data initially recorded.

The following are examples of changes in the lease which would require a new worksheet:

- A change in the term of the lease;
- Conversions in price plans that would impact the cost of the lease or alter other terms of the agreement; for example a conversion from 36 month lease without options to a lease to ownership plan;
- Upgrades made on existing equipment that will require an adjustment to present value calculations or alter the useful life of the equipment;
- Equipment trade-in for other equipment; and
- Equipment replacement or substitution.

The revised worksheet will be filed in the purchase order or contract file; a copy of the worksheet and purchase order or contract modification will be forwarded to the Property

Manager; and a copy retained in the permanent office file and for capital leases, one copy for the Property Team, AGFS.

If a lease is canceled or an option is not exercised, the Procurement Office will forward a copy of the modification canceling the lease or otherwise notify the Property Manager who will delete the property from the NFC PMIS.

The Procurement Office and the Requisitioner must advise the Property Manager when the Government assumes ownership of leased property. Although not typical, there may be an instance where there are additional costs associated with the Government assuming ownership. The Procurement Office must provide the Property Manager with those costs and supporting documentation. The Property Manager will ensure that the data recorded in the NFC PMIS is appropriately adjusted.

REPLACEMENT OR SUBSTITUTION OF LEASES

The Procurement Office and the Requisitioner must advise the Property Manager when equipment is replaced and a substitute provided. The Procurement Office will prepare and distribute the revised worksheet and supporting documentation according to guidance provided herein.

Chapter VII - Personal Property Actions

Because of the potential impact of capital leases, a copy of each is to be forwarded to the Personal Property Team, AGFS for review, consolidation, and forwarding to the Finance Management Division.

PREPARATION OF CAPITAL LEASE FOLDER

The AGFS Personal Property Team will create and maintain a Property Folder for each capital lease item. The Capital Lease Folder will include the following:

- a copy of the current certified inventory of the property item;
- a copy of the NFC screen print;
- a copy of the lease worksheet; and
- a copy of the procurement action to acquire the property and any other documentation determined necessary to accurately record the required property information.

The Capital Lease Folders will be maintained and stored by the AGFS Personal Property Team.

ENTERING DATA IN THE PMIS NFC

The local ASC Property Office will be responsible for assigning Bar Codes and entering the property data into the NFC PMIS. A copy of the CD-509 will be forwarded to the AGFS Personal Property Team.

CALCULATION OF DEPRECIATION

Depreciation will be calculated using the useful life assigned by the NFC system. Information derived from the Lease Determination Worksheet will be used in the process.

CALCULATION OF IMPUTED INTEREST

Imputed Interest will be reported based on information contained in the Lease Determination Worksheet.

PREPARATION FINANCIAL DATA SPREADSHEET FOR FINANCIAL STATEMENT INFORMATION

Annually, the NOAA Property Management Officer will meet with the NOAA Finance Office to determine the form and content required for the Financial Statements. Based on these requirements, the AGFS Personal Property Team will create and maintain a spreadsheet. This spreadsheet will identify each piece of capital leased equipment, the date of acquisition, the annual depreciation, accumulated depreciation and a description of the leased

equipment. The spreadsheet will completed and forwarded to Finance no later than December 1 of each fiscal year.

Chapter VIII - Financial Statement Information

After the amount of time and effort consumed preparing the Lease Determination Worksheets, they are consolidated at year end (September 30) into information to be included in the annual NOAA Financial Statements. The NOAA Financial Statements are used as a management tool. The purpose of the financial statements is to present the financial position and the results of operations of NOAA. The financial statements provide information that is useful to Congress, agency managers, and the public.

CAPITAL LEASES

Capital leases are leases that transfer substantially all the benefits and risks of ownership to the lessee. If, at its inception, a lease meets one or more of the four criteria mentioned earlier in this handbook, the lease should be classified as a capital lease. Capital leases are reported as assets under Property, Plant and Equipment on the NOAA balance sheet.

The balance sheet represents, as of a specific time (September 30, 19XX), amounts of future economic benefits owned or managed by NOAA exclusive of items subject to stewardship reporting (assets), amounts owed by NOAA (liabilities), and amounts which comprise the difference (net position).

Capital leases are reported on the balance sheet net of accumulated depreciation. Depreciation is the systematic and rational allocation of the acquisition cost of an asset, less its estimated salvage value or residual value, over its estimated useful life. In addition, a corresponding liability is reported on the balance sheet which represents the present value of the rental and other minimum lease payments during the lease term, excluding that portion of the payments representing executory cost to be paid by NOAA. However, if the amount so determined exceeds the fair market value of the leased property at the inception of the lease, the amount recorded as the liability should be the fair value. If the portion of the minimum lease payments representing executory cost is not determinable from the lease provisions, the amount should be estimated.

OPERATING LEASES

Operating leases are leases where an agreement has been made conveying the right to use property for a limited time in exchange for periodic rental payments. The periodic rental payments are reported on the NOAA financial statements as expenses.

OMB BULLETIN 97-01

Federal agencies have traditionally prepared financial reports to monitor and control the obligations and expenditures of budgetary resources. With the enactment of the Chief Financial Officer's (CFO) Act of 1990, Congress called for the production of financial statements that fully disclose a Federal entity's financial position and results of operations, and provide information not only for the effective allocation of resources but also with which Congress, agency managers, the public, and others can assess management performance and stewardship. Hence, the Office of Management and Budget, in consultation with the CFO Council, the President's Council on Integrity and Efficiency, and other interested parties,

developed the formats and instructions for financial statements described in OMB Bulletin 97-01.

The Bulletin defines the form and content for financial statements that are required to be submitted to the Director of OMB. This Bulletin incorporates the concepts and standards contained in the Statements of Federal Financial Accounting Standards (SFFASs) recommended by the Federal Accounting Standards Advisory Board (FASAB) and issued by OMB. Specifically, FASAB #5, *Accounting for Liabilities of the Federal Government* and FASAB #6, *Accounting for Property, Plant, and Equipment* includes the concepts for capital and operating leases. The provisions of the Bulletin are effective in their entirety for the preparation of financial statements for the fiscal year ending September 30, 1998.

The only new OMB Bulletin 97-01 requirements that affect NOAA in FY 1998 are as follows:

- (1) all capital leases entered into during FY 1992 and thereafter, are required to be fully funded in the first year of the lease; and
- (2) during the lease term, each minimum lease payment should be allocated between a reduction of the obligation (Liability) and interest expense so as to produce a constant periodic rate of interest on the remaining balance of the liability.

FINANCIAL STATEMENTS AND FOOTNOTES

Attached are NOAA's FY 1997 balance sheet and footnotes 11 and 25 which disclose the applicable lease information as required by OMB. Disclosure refers to reporting information in notes regarded as an integral part of the basic financial statements.

Information for capital leases to be disclosed include a summary of assets; a description of lease arrangements; future minimum lease payments, less imputed interest and executory costs; and amount of capital lease liability that is covered by budgetary resources and not covered by budgetary resources. Disclosure information for operating leases include a summary of operating lease groups; description of lease arrangements; and future minimum lease payments for the next five years (after the reporting year end) and after five years.